

STATE SCHOOL AID UPDATE

Michigan Department of Education



February, 2007

Vol. 15 No. 5

FY 2007 STATE SCHOOL AID

Based on declining revenues announced at the January Revenue Estimating Conference, there is a shortfall of \$377.3 million in the FY 2007 school aid budget. In order to avoid a potential mid-year proration of approximately \$215 per pupil (after proration to intermediate school districts and other entities), Governor Granholm has proposed Michigan Public School Employee Retirement System (MPERS) rate changes that would reduce school contributions by \$185 million and tax restructuring that would generate additional revenues of \$191.1 million for FY 2007 to offset the shortfall. Under this proposal, legislation would be enacted directing the MPERS to revalue its assets by assigning them their actual market value as of September 30, 2006. Generally, the assets are assigned an actuarial value that takes into account a five year "smoothing" of investment gains and losses. Based on this revaluation, the Department of Management and Budget will issue credits totaling \$185 million to schools that will offset pension obligations that would otherwise be paid from foundation allowances or ISD operating funds. Each district's or ISD's appropriation from the school aid fund will take into consideration the MPERS credit and their school aid payment will be reduced by the amount of the credit. However, the gross amount of payments will remain the same—some will be paid from the school aid fund and some will be paid by MPERS credits. **Please be advised that changes to this plan are possible as it makes its way through the legislative process.**

EXECUTIVE BUDGET RECOMMENDATION FOR 2007-2008

On February 8, 2007, Governor Granholm's executive budget recommendations for 2007-2008 (FY 2008) were presented. The following are some highlights of the provisions of the K-12 budget proposal.

- The **minimum foundation** allowance in FY 2008 would be \$7,286.00, an increase of \$178 above the sum of the current FY 2007 minimum foundation of \$7,085 and the \$23 FY 2007 Equity payment.
- The executive recommendation allocates \$194.6 million for a **new Section 32e** that would provide foundation grant payments for eligible preschool students enrolled in great start comprehensive compensatory programs designed to improve the readiness and achievement of educationally disadvantaged children. These would be all day programs for an estimated 26,000 children who are at least 4 but less than 5. Participating districts must agree to provide all day kindergarten programs for former students of this program.
- The executive recommendation also includes a new **Section 22e** that would allocate \$10 million for the purpose of rewarding constituent districts that establish cost-sharing agreements promoting consolidation of business, administrative, and instructional services with their intermediate school district.
- The executive recommendation for FY 2008 would allocate an additional \$16 million in **Section 29** for districts that are not eligible for the three-year average membership blend under Section 6(4)(y) or for funding under Section 22d and have had two consecutive years of membership decline. The payments would continue to be based on the difference between a three-year average and the actual membership.
- **Great Start School Readiness** funding (**Section 32d**) would increase by \$5.4 million in order to increase the per-child allotment from \$3,300 to \$3,500.
- **ISD General Operating** funding (**Section 81**) would increase by 2.5%, the same percentage increase as the basic foundation grant. Per existing State School Aid Act language, the \$23 per pupil equity payment that eligible districts received in FY 2007 will

be rolled-up into the foundation grant for FY 2008. Therefore, the **Section 22c** categorical will be eliminated.

- Programs that would continue for FY 2008 at their FY 2007 funding levels include:
 - ISD Special Education Millage Equalization (Section 56) \$36.9 million;
 - Bilingual Education (Section 41) \$2.8 million;
 - Vocational Education (Section 61a) \$30 million;
 - Adult Education (Section 107) \$24 million;
 - Math/Science Centers (Section 99) \$3.5 million;
 - Great Parents Great Start (Section 32j) \$5 million;
 - ISD Vocational Education Millage Equalization (Section 62) \$9 million.
- Other categoricals that would be increased for FY 2007 include:
 - Renaissance Zone Reimbursements (Section 26a) \$53.2 million;
 - School Bond Loan Fund Payments (Section 11j) \$51.8 million.

The estimated FY 2008 PSERS rate would decrease from 18.56% to 16.72% in the proposed executive recommendation if legislation is enacted to revalue the MPSERS assets (see related item above).

The summary provided above should not be considered a complete description of the content of the executive proposal. Also, please be advised that changes are likely as the budget makes its way through the legislative process. Additional information and details on the executive budget proposal can be found at www.Michigan.gov/budget.

SPECIAL EDUCATION COSTS UPDATED

The February payment was calculated with updated special education and special education transportation cost figures for most districts. The figures now being used are the costs reported for FY 2006. In addition to affecting the current year Section 51c - Special Education Headlee amount, this update may cause adjustments to the current year Section 22b - Discretionary Payment as well as causing prior year adjustments for FY 2006 Section 51c and possibly FY 2006 Section 22b. Questions concerning these changes may be directed to Dianne Easterling, (517) 241-4517, EasterlingD@Michigan.gov.

FINANCIAL INFORMATION DATABASE (FID) CORRECTIONS

The Office of State Aid and School Finance would like to thank district personnel for taking the time to update the 2005-2006 FID files as requested in recent correspondence. We are extremely grateful for the overwhelming and timely response to these requests. In addition to the Department, there are many users of the FID data such as the House and Senate Fiscal agencies, the Department of Management and Budget, the federal government, educational associations, and the public. Your work on these data corrections facilitates the release of the data to the various users in a timely manner. (Glenda Rader, Office of State Aid and School Finance, (517) 335-0524 or RaderG@Michigan.gov.)

GENERAL INFORMATION

- **March 14** is the deadline for **ISDs** to submit to the Center for Educational Performance and Information (CEPI) the **Audited FTE Counts** for the **September 27, 2006** pupil membership count day. (Joellen Wonsey, (517) 373-3352, WonseyJ@Michigan.gov)
- **February 14** was the FY 2007 Supplemental count date. The Single Record Student Database records for the Supplemental count date are due to the intermediate school district (ISD) on March 21, 2007. The ISD is to submit the records to the CEPI by April 4, 2007. The Supplemental count ISD audited FTE values are due to CEPI by July 25, 2007.
- The proration factor for Section 29 Declining Enrollment is .0961341627
- The proration factor for Section 31a – At Risk funding is \$205.1012449696 per pupil.

Do you have questions about the information appearing in this UPDATE? Call the consultant identified above or **Dan Hanrahan, Director, State Aid & School Finance, MDE**, phone: (517) 335-0521, fax: (517) 241-0196, e-mail: HanrahanD@Michigan.gov.